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C O N F I D E N T I A L SECTION 01 OF 03 ROME 002294

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PASS PASS USOECD; STATE PASS USTR; GENEVA FOR USTR; USDOC
4212/ITA/OEURA/CPD/DDEFALCO
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E.O. 12958: DECL: 05/22/2008

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SUBJECT: PDAS RIES VISIT: ECONOMIC PRIORITIES FOR ITALY'S
EU PRESIDENCY

CLASSIFIED BY: CHARGE D'AFFAIRS EMIL SKODON FOR REASONS 1.5 (B, D)

11. (C) SUMMARY. GOI OFFICIALS BELIEVE THAT AS EU PRESIDENT, ITALY'S TOUGHEST ECONOMIC CHALLENGE WILL BE TO HELP RESTORE CONSUMER AND INVESTOR CONFIDENCE IN THE MARKETS. A CREDIBLE MESSAGE BY THE ITALIAN PRESIDENCY AND COMMITMENT BY ALL EU MEMBERS TO JUMP-START EURO-ZONE ECONOMIES ARE NEEDED TO WIN BACK CONFIDENCE, MFA AND FINANCE MINISTRY OFFICIALS TOLD VISITING PRINCIPAL DEPUTY ASSISTANT SECRETARY RIES DURING A MAY 19TH ROUNDTABLE DINNER DISCUSSION. THE GOI ALSO WILL SEEK A STRONG US/EU COMMON STATEMENT IN SUPPORT OF THE DOHA TRADE ROUND PRIOR TO THE CANCUN MEETING, FOLLOWED BY A SUCCESSFUL MEETING ITSELF. ALSO DISCUSSED WERE THE POSSIBILITY OF REVITALIZING THE TRANSATLANTIC BUSINESS DIALOGUE, ITALY'S E-GOVERNMENT PLANS, TRADE ISSUES AND THE MID-TERM REVIEW OF THE COMMON AGRICULTURAL PROGRAM. END SUMMARY.

12. (U) PARTICIPATING IN THE DCM-HOSTED DINNER FOR PDAS RIES WERE LORENZO BINI-SMAGHI, DIRECTOR GENERAL (AND G7 FINANCIAL SOUS-SHERPA) OF THE FINANCE MINISTRY; GIANDOMENICO MAGLIANO, THE NEW DIRECTOR GENERAL, OFFICE OF ECONOMIC COOPERATION, MINISTRY OF FOREIGN AFFAIRS; AMEDEO TETI, DIRECTOR GENERAL, COMMERCIAL AGREEMENTS, MINISTRY OF PRODUCTIVE ACTIVITIES (TRADE); STEFANO GATTI, DIPLOMATIC ADVISOR TO THE MINISTER OF
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TECHNOLOGY AND INNOVATION, AND RAFFAELE DE LUTIO, DIPLOMATIC ADVISOR TO THE MINISTRY OF AGRICULTURE, AND FOR THE U.S., THE ECONOMIC MINISTER COUNSELOR, AGRICULTURAL MINISTER COUNSELOR AND ECONOFF (NOTETAKER). MEETINGS WITH GIUSEPPE BALDOCCI, SECRETARY GENERAL, MINISTRY OF FOREIGN AFFAIRS, ROCCO

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CANGELOSI, DIRECTOR GENERAL FOR EUROPEAN INTEGRATION, MFA, AND OTHER MINISTRY OFFICIALS REPORTED SEPTTEL.

A SOMBER MACROECONOMIC PICTURE

13. (C) THE CONTINUED RECESSION, THE RISING EURO (AND PARTICULARLY ITS IMPACT ON EUROPEAN EXPORTERS), AND INCREASED UNEMPLOYMENT, ALL HAVE LEFT EUROPEAN CONSUMERS AND INVESTORS JITTERY ABOUT THE MARKETS, COMMENTED MAGLIANO AND BINI-SMAGHI. ONE OF ITALY'S KEY TASKS AS THE EU PRESIDENT AND A G7 COUNTRY WILL BE TO MAKE A CREDIBLE STATEMENT AND TAKE REAL STEPS THAT WILL HELP RESTORE CONFIDENCE, ARGUED MAGLIANO. NOTING THAT ATMOSPHERICS AT THE G7 FINANCE MINISTERS MEETING WERE POSITIVE, WITH NO VISIBLE LINGERING EFFECTS OF IRAQ, BINI-SMAGHI ASSERTED THAT WE SHOULD TAKE THIS AS A MESSAGE AND FOCUS ON ECONOMIC ISSUES DURING OUR PRESIDENCY TO HELP RESTORE U.S./EU RELATIONS TO GOOD HEALTH.

14. (C) AT THE SAME TIME, THERE ARE NO SHORTAGES OF CONCERNS, BINI-SMAGHI CONTINUED. THE DOLLAR'S FUTURE VALUE IS THE GREAT UNKNOWN. AT THE END OF LAST WEEK'S MEETING, G7 FINANCE MINISTRY OFFICIALS THOUGHT THE U.S. STILL WOULD DEFEND A STRONG DOLLAR. ALL WERE SURPRISED BY THE WEEKEND'S PRESS REPORTS THAT THE U.S. ADMINISTRATION HAD BACKTRACKED FROM THIS POSITION AND WOULD "LET THE DOLLAR FALL." THE
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"AMBIGUITY" OF THE U.S. POSITION, AND THE FLUCTUATIONS OF THE DOLLAR'S VALUE VIS-A-VIS THE EURO, WORRY EUROPEAN CONSUMERS AND EXPORTERS, BINI-SMAGHI CONTENDED. EUROPEAN EXPORTERS AND JOBS THAT DEPEND ON EXPORTS STAND TO LOSE THE MOST. HE ALSO OBSERVED THAT WIDESPREAD FLUCTUATIONS HAVE ONLY OCCURRED IN THE DOLLAR/EURO VALUES. ASIAN CURRENCIES ON THE WHOLE HAVE MAINTAINED MORE EQUILIBRIUM WITH THE DOLLAR. TO COMPOUND MATTERS, MANY ASIAN INVESTORS ARE DIVERSIFYING THEIR FINANCIAL ASSETS TO INCLUDE EURO-DENOMINATED ASSETS, WHICH PUTS EVEN MORE UPWARD PRESSURE ON THE EURO.

15. (C) MAGLIANO AND BINI-SMAGHI AGREED THAT ITALY, A G7 COUNTRY HOLDING THE EU PRESIDENCY, HAS A PARTICULAR OBLIGATION TO REASSURE CONSUMERS AND INVESTORS. (COMMENT: THE LAST G7 COUNTRY THAT HELD THE EU PRESIDENCY WAS FRANCE

THREE YEARS AGO, WHICH WAS AT THE TAIL END OF ECONOMIC BOOM YEARS. END COMMENT.) WHEN QUERIED ABOUT SPECIFIC PROPOSALS UNDER THE PRESIDENCY, BINI-SMAGHI, KEEPING THE GOI'S CARDS FAIRLY CLOSE TO THE CHEST, MENTIONED VAGUE PLANS ABOUT INFRASTRUCTURE INVESTMENT AND A WRY AND WEARY ACKNOWLEDGMENT OF THE NEED FOR PENSION REFORM. HE CONCEDED THAT A STRONGER EURO MIGHT FORCE THE HAND OF GOVERNMENTS TO ADOPT SOME MAJOR STRUCTURAL REFORMS.

16. (C) ON A DARK NOTE, BINI-SMAGHI ACKNOWLEDGED THAT SOME

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ACTION EUR-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	CTME-00	INL-00
	DODE-00	ANHR-00	SRPP-00	DS-00	EB-00	EXIM-01	E-00
	VC-00	FRB-00	H-01	TEDE-00	INR-00	IO-00	ITC-01
	LAB-01	L-00	VCE-00	AC-01	NSAE-00	NSCE-00	OES-00
	OMB-01	OPIC-01	PA-00	PM-00	PRS-00	ACE-00	P-00
	SCT-00	SP-00	IRM-00	SSO-00	STR-00	USIE-00	PMB-00
	DSCC-00	PRM-00	DRL-01	G-00	NFAT-00	SAS-00	/009W

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P 230850Z MAY 03
FM AMEMBASSY ROME
TO SECSTATE WASHDC PRIORITY 0065
INFO EU MEMBER STATES COLLECTIVE PRIORITY
AMCONSUL FLORENCE PRIORITY
AMCONSUL FRANKFURT PRIORITY
AMCONSUL MILAN PRIORITY
AMCONSUL NAPLES PRIORITY
DEPT OF COMMERCE WASHDC PRIORITY
DEPT OF LABOR WASHDC PRIORITY
DEPT OF TREASURY WASHDC PRIORITY
USEU BRUSSELS PRIORITY 3241
USMISSION USNATO PRIORITY

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SUBJECT: PDAS RIES VISIT: ECONOMIC PRIORITIES FOR ITALY'S
EU PRESIDENCY

GOI OFFICIALS ARE CONCERNED ABOUT THE "WORST-CASE" ECONOMIC SCENARIO UNDER THE ITALIAN PRESIDENCY: A BREAKDOWN IN THE DOHA TRADE ROUND, AN UNCONTROLLED FREE-FALL OF THE U.S. DOLLAR WITH A DOLLAR/EURO EXCHANGE RATE OF LEVELS UP TO \$1.40/E1, AND UNEMPLOYMENT IN EUROPE EXACERBATED BY A STRONG EURO. ALTHOUGH NONE OF THESE IS SPECIFICALLY UNDER ITALY'S CONTROL, THE GOI DOES NOT WANT TO BE IN THE CHAIR IF EUROPE'S ECONOMY TRULY STALLS.

DEFENSE SPENDING AND STABILITY PACT

17. (C) ASKED ABOUT NEWS REPORTS EARLIER THAT DAY THAT GERMAN, ITALIAN AND FRENCH DEFENSE MINISTERS ARE ADVOCATING THAT DEFENSE EXPENDITURES BE EXCLUDED FROM STABILITY PACT REQUIREMENTS, ALLOWING THE BIG THREE TO INCREASE DEFENSE EXPENDITURES, BINI-SMAGHI POLITELY SCOFFED AS THIS PURPORTED AGREEMENT, CALLING IT A "PRIVATE INITIATIVE." "THEY CAN SAY WHAT THEY LIKE," HE SHRUGGED, BUT STRESSED THAT FINANCE MINISTERS, NOT DEFENSE MINISTERS, ARE THE ONES OBLIGED TO FULFILL STABILITY PACT REQUIREMENTS. COMMENT: THE COMMISSION HAS RULED OUT EASING THE MAASTRICHT CRITERIA BY EXCLUDING DEFENSE FROM OVERALL EXPENDITURES. EARLIER THIS MONTH, DIRECTOR GENERAL ARRIGO SADUN OF THE FINANCE MINISTRY TOLD US THAT FINANCE MINISTER TREMONTI IS LOOKING AT CREATIVE WAYS TO FINANCE INCREASED DEFENSE EXPENDITURES, WITHOUT VIOLATING

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STABILITY PACT COMMITMENTS. DURING THE 2002 BUDGET DEBATE IN ITALY, TREMONTI PROPOSED SIGNIFICANT CUTS IN DEFENSE SPENDING TO MEET STABILITY PACT REQUIREMENTS. HE BACKTRACKED, HOWEVER, AFTER INTENSE PRESSURE FROM DEFENSE MINISTER MARTINO AND LATER, FROM PRIME MINISTER BERLUSCONI, WHO HAD PROMISED NATO SYG ROBERTSON THAT ITALY WOULD IMPROVE ITS MILITARY CAPABILITIES. END COMMENT.

ECONOMIC ASSISTANCE

18. (SBU) IN RESPONSE TO PDAS RIES' SUGGESTION THAT THE US AND

EU SHOULD DO MORE TO JOIN EFFORTS ON ECONOMIC ASSISTANCE TO THIRD COUNTRIES, MAGLIANO CONCURRED, NOTING THAT JOINT PROJECTS COULD HELP BRIDGE THE CURRENT GAP BETWEEN THE U.S. AND THE EU. HE SPECIFICALLY POINTED TO THE CASE OF IRAQI RECONSTRUCTION PROJECTS.

19. (SBU) STEFANO GATTI, DIPLOMATIC ADVISOR TO THE MINISTER OF TECHNOLOGY AND INNOVATION, NOTED THAT ITALY SEES E-GOVERNMENT AS A TOOL FOR ECONOMIC DEVELOPMENT FOR LESS-DEVELOPED COUNTRIES. ONE OF THE FIRST EVENTS OF ITALY'S EU PRESIDENCY WILL BE AN E-GOVERNMENT CONFERENCE, BRINGING TOGETHER THE EU MEMBER STATES, MULTILATERAL DEVELOPMENT BANKS, THE UNITED NATIONS, AND SELECTED INVITED GOVERNMENTS. THE GOI RECENTLY LAUNCHED TWO PROJECTS IN JORDAN ON E-PROCUREMENT AND E-ACCOUNTING AND WILL SOON HAVE ON-LINE PROJECTS IN NIGERIA, MOROCCO AND ALBANIA. REGARDING THE LATTER, PDAS REMARKED THAT ANTI-CORRUPTION EFFORTS IN THE BALKANS ARE ONE OF THE USG'S TOP PRIORITIES AND THAT PERHAPS, THE U.S. AND ITALY, AS EU PRESIDENT, COULD WORK TOGETHER.

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TRADE, CAP REFORM, AND THE TABD

10. (C) THE GOI SUPPORTS A STRONG STATEMENT BY G7 COUNTRIES, AT THE JUNE 1-2 SUMMIT IN EVIAN, IN SUPPORT OF THE PRINCIPLES OF THE DOHA TRADE ROUND. THIS WILL HELP CLEAR THE WAY FOR A SIMILAR U.S./EU STATEMENT, WHICH ITALY WILL PRESS FOR UNDER ITS PRESIDENCY. SUCH A STATEMENT IS A WIN-WIN FOR ALL PARTIES, MAGLIANO ARGUED. TRADE DG TETI STRESSED THAT THE GOI HOPED THE ITALIAN EU PRESIDENCY WOULD BE A TIME OF COOLING OFF, NON-CONFRONTATION, AND A WILLINGNESS TO SEARCH FOR COMMON GROUND BY BOTH SIDES OF THE ATLANTIC. IN THIS CONTEXT, HE SAID THE GOI WOULD BE PREPARED TO TAKE A MORE LIMITED AND "PRAGMATIC APPROACH" TO GEOGRAPHIC INDICATIONS (ITS TOP DOHA PRIORITY). HE PREDICTED THAT PROGRESS ON CAP REFORM IN THE NEAR FUTURE WOULD HAVE A POSITIVE IMPACT ON THE EU'S POSITION ON AGRICULTURE WITHIN THE WTO NEGOTIATIONS.

11. (SBU) ON THE ISSUE OF THE MID-TERM REVIEW OF THE COMMON AGRICULTURAL POLICY (CAP), BOTH DE LUTIO AND TETI WERE HOPEFUL THAT THE AGRICULTURAL COUNCIL COULD REACH AGREEMENT UNDER THE GREK PRESIDENCY. TETI IN PARTICULAR WAS SENSITIVE TO THE IMPORTANCE OF REACHING AGREEMENT BY THE END OF JUNE IF

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ACTION EUR-00

INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	CTME-00	INL-00
	DODE-00	ANHR-00	SRPP-00	DS-00	EB-00	EXIM-01	E-00
	VC-00	FRB-00	H-01	TEDE-00	INR-00	IO-00	ITC-01
	LAB-01	L-00	VCE-00	AC-01	NSAE-00	NSCE-00	OES-00
	OMB-01	OPIC-01	PA-00	PM-00	PRS-00	ACE-00	P-00
	SCT-00	SP-00	IRM-00	SSO-00	STR-00	USIE-00	EPAE-00
	PMB-00	DSCC-00	PRM-00	DRL-01	G-00	NFAT-00	SAS-00

/009W

-----69EE7E 230857Z /38

P 230850Z MAY 03
FM AMEMBASSY ROME
TO SECSTATE WASHDC PRIORITY 0066
INFO EU MEMBER STATES COLLECTIVE PRIORITY
AMCONSUL FLORENCE PRIORITY
AMCONSUL FRANKFURT PRIORITY
AMCONSUL MILAN PRIORITY
AMCONSUL NAPLES PRIORITY
DEPT OF COMMERCE WASHDC PRIORITY
DEPT OF LABOR WASHDC PRIORITY
DEPT OF TREASURY WASHDC PRIORITY
USEU BRUSSELS PRIORITY 3242
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THERE IS TO BE ANY CHANCE OF A SUCCESSFUL AGRICULTURAL AGREEMENT AT THE SEPTEMBER WTO MINISTERIAL IN CANCUN. TWO ISSUES - DECOUPLING OF FARMER INCOME SUPPORT PAYMENTS FROM PRODUCTION DECISIONS AND CONTINUATION OF THE DAIRY QUOTAS -

WERE IDENTIFIED AS THE LARGEST STUMBLING BLOCKS FOR AG
MINISTERS TO CONTEND WITH. COMMENT: AS USEU ALREADY HAS
REPORTED, THE AG COUNCIL'S DEFINITION OF DECOUPLING IS FLUID
AT BEST. TETI'S COMMENT THAT THE FRENCH ARE NO LONGER OPPOSED
TO PARTIAL DECOUPLING AND DE LUTIO'S REMARKS THAT ITALY'S
THREE FARMER ORGANIZATIONS ARE NOW UNITED IN THEIR SUPPORT
FOR PARTIAL DECOUPLING SIGNALS TO US THAT THE COUNCIL HAS
INDEED MOVED SOME DISTANCE FROM THE COMMISSION'S ORIGINAL
PROPOSAL. NEITHER DE LUTIO OR TETI COULD GIVE US THE AG
COUNCIL'S WORKING DEFINITION OF PARTIAL DECOUPLING. END
COMMENT

12. (SBU) BOTH AT THE DINNER AND LUNCH EARLIER THAT DAY,
ITALIAN OFFICIALS (SOMEWHAT UNEXPECTEDLY) RAISED THE
TRANSATLANTIC BUSINESS DIALOGUE AS A POSSIBLE MECHANISM FOR
IMPROVING US-EU RELATIONS GENERALLY. THEY LISTENED WITH
INTEREST TO PDAS RIES' RECOUNTING OF THE HISTORY OF THE TABD
AND CURRENT COMMERCE DEPARTMENT THINKING ON HOW IT MAY BE
REINVIGORATED. THE ITALIANS EXPRESSED AN INTEREST IN KEEPING
IN TOUCH ON THE TABD.

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13. (U) PDAS RIES DID NOT HAVE AN OPPORTUNITY TO CLEAR THIS
CABLE BEFORE DEPARTING ROME.
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